



Hess Positioning Bullish Short and Long Term

Ticker/Price: HES (\$55.15)

Analysis:

Hess Corp (HES) higher today with oil and consolidating in a bull flag below the 200-EMA and recent highs with shares back above cloud resistance. Yesterday, 5,000 January 2020 \$75 calls were bought for \$1.54 to open and follows buyers last week of 3,500 January 2020 \$60 calls for \$2M and 2,500 April \$60 calls for \$1.60. The March \$57.50 calls have also seen 5,000 bought over the last week and 2,000 May \$55 puts sold to open. HES has bullish call OI across the March, June, and August calls as well. A move above \$56.50 has room back to \$61 while longer-term the move out of the recent downtrend targets \$70+. The \$16.5B company trades 8.5X EV/EBITDA, 2.5X sales, and 30X FCF with a 1.87% yield. HES expects flat growth in 2019 but 22.8% revenue growth for FY20. The company is targeting 20% cash flow CAGR and greater than 10% production CAGR through 2025 with upside from their leading position in Guyana. The company thinks there remains multi-million barrel potential as exploration continues with first oil by 2020. The area is one of the largest offshore discoveries of the last decade and is a significant driver of cash flow growth given the mix of high-quality production and low development costs. Analysts have an average target for shares of \$67 with 5 buy ratings, 8 hold ratings, and 2 sell ratings. Stephens downgraded shares to Neutral on 1/29 citing valuation but has a \$69 PT for shares. MKM keeps a Buy rating and \$79 PT for shares noting in January that concerns over Venezuela exposure are an overreaction. They don't see any disruptions in the region which would delay Guyana development. They see production in the region hitting 220M BOE/D and expected to be one of the steadiest regions over the next five years. Institutional ownership fell 8% last quarter. Elliott Management a buyer of call options last quarter and still owns 21.9M shares, their fourth largest position. Short interest is 7.2% and down from above 8% in December and 10.5% in early 2018.

Hawk Vision:



Trading Strategy: HES is one of the more defensive Oil names to own and do like it compared to peers but Oil & Gas has the least healthy of trends and there are better places currently until Oil has a catalyst to break higher.

Confidence Ranking: \$\$